Magna International Inc. Annual Report 1976

Magna International Inc.

and its subsidiary companies

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Annual Meeting

The Annual Meeting of the company will be held on Tuesday, January 11, 1977 at 11 a.m. in the V.I.P. Room of the Four Seasons Sheraton Hotel, The Sheraton Centre, Queen Street, Toronto, Ontario. All shareholders and those interested are welcome to attend.

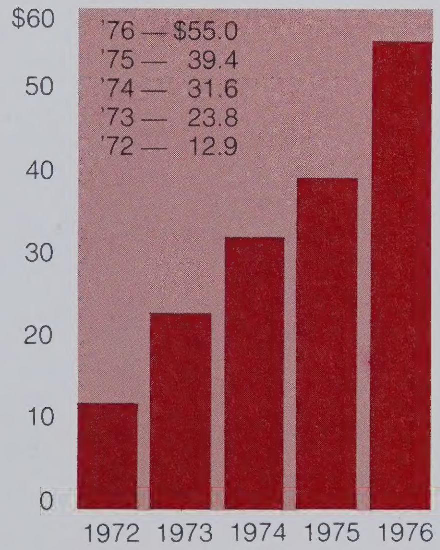
Magna
International
Inc.
and its subsidiary companies

Financial Highlights

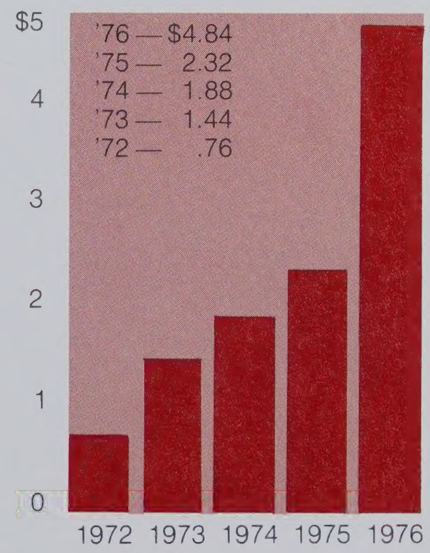
	1976	1975
Sales	**$55,009,975**	$39,414,908
Profit from operations	**5,734,513**	2,880,347
Net profit for the year	**2,786,580**	1,339,230
Working capital	**4,925,734**	3,232,787
Earnings per common share:		
Basic	**$4.84**	$2.32
Fully diluted	**$4.33**	$2.09
Dividends paid:		
Common	**$ .40**	$ .20
Preference	**$6.50**	$6.50

Record of Growth

Sales
$ Million



Earnings
Per Share
(Basic)



Magna International Inc.

and its subsidiary companies

Directors:
ANTON CZAPKA
PAUL B. HELLIWELL
HELMUT HOFMANN
ROY A. KENNEDY
MURRAY G. KINGSBURGH, C.A.
J. ALEX LANGFORD, Q.C.
BURTON V. PABST
WILLIAM S. STOREY
FRANK STRONACH

Officers:
FRANK STRONACH, Chairman of the Board and Chief Executive Officer
BURTON V. PABST, Vice Chairman of the Board
HELMUT HOFMANN, President
ROBERT M. JONES, Vice President, Sales and Marketing (Automotive)
MURRAY G. KINGSBURGH, C.A., Vice President Finance and Secretary
JAMES N. RENNER, P.Eng., Vice President, Engineering
ANTON CZAPKA, Vice President, Administration

Auditors:
CLARKSON, GORDON & CO., TORONTO

Solicitors:
MILLER, THOMSON, SEDGEWICK, LEWIS & HEALY, Toronto

Registrars and Transfer Agents:
THE CANADA TRUST COMPANY, Toronto

Banker:
THE BANK OF NOVA SCOTIA, Toronto

Head Office:
355 Wildcat Road, Downsview, Ontario M3J 2S3

Magna International Inc.
and its subsidiary companies

Magna's Philosophy and Operating Policies

The success of a company is based upon a management that is capable of motivating its employees and generating the confidence of investors with good operating policies.

Magna has demonstrated this capability.

In the history of Magna, the management has created a decentralized system of small plants each being a profit centre. The management of each of these centres shares directly in the profit of their operation.

The management of Magna ensures orderly growth of the corporation by:

- controlling financial planning and establishing the guidelines for social and safety conditions.
- providing assistance in engineering, with a commitment to research and development to accumulate advanced technology and manufacturing techniques.
- providing assistance in sales and marketing to guarantee good relationships with customers.

The management of Magna is deeply concerned with the present social conditions, labour unrest, and inflation:

- These problems represent the greatest threat to free enterprise and democracy.
- Business is vitally challenged to do its part in resolving these unfavourable conditions.

Magna believes that by providing employees with the opportunity to obtain an ownership in their company through a profit sharing plan, it can effectively combat these problems. This plan will allow employees to become shareholders with greater motivation to contribute to both the growth and well being of their company and their social standing.

Employee Equity Participation
Magna shares the benefits of equity ownership with its employees. Each year a portion of the profits is used to purchase shares of the company for the benefit of the employees.

Dividends
It is company policy to return approximately one-fifth of the company's profits to the shareholders in the form of a dividend.

Research and Development
As in previous years, it is company policy to allocate approximately seven per cent of before tax profits for special approved projects. These funds are provided as operating expenses and are not capitalized.

Social Contribution
Magna recognizes its responsibilities as a member of society and in this regard is committed to supporting socially beneficial projects.

Magna International Inc.
and its subsidiary companies

To the Shareholders:

The fiscal period just ended saw your Company set new records in both revenues and earnings. Consolidated sales, net income and earnings per share were all significantly higher than in any previous year in your company's history. More specifically, sales rose 40% to $55 million; net income was $2.78 million, an increase of 108% over the previous period. Consequently earnings per share at $4.84 reflected these gains when compared with $2.32 last year. This rapid growth has required effective financial controls particularly in the areas of capital expenditures and inventory additions. Although capital expenditures in 1976 reached a new high to meet the anticipated demand of the coming years, these new assets were financed to the extent that long term debt remained constant, and an increase of $1.7 million in working capital was achieved resulting in a significant improvement in the working capital ratio. In addition, effective inventory controls caused these assets to increase at a much lower rate than the overall business activity of your Company.

All sectors of your Company's business provided commensurate contributions to these excellent results.

The automotive group, representing approximately 65% of the consolidated revenues, responded to a re-stabilized automotive industry by playing a major role in achieving these improved profits. There were new levels of activity in the area of capacity additions and expansions. The addition of another manufacturing facility in the United States and the start-up of a second plant to produce automotive pulleys are particularly noteworthy. Our trim manufacturing area achieved significantly higher capacity through major expansions at two existing facilities.

The Aerospace/Defence Group continued to add both revenue and income. This Group's excellent reputation for assured, high quality precision products was largely responsible for your Government awarding a long term contract designating the Company as the sole source for the manufacture and overhaul of small arms for the Armed Forces. Two new manufacturing identities were integrated into this group during 1976.

In the Commercial sector, the structural steel division contributed proportionately to Corporate income. To support growth, both the manufacturing and administrative facilities were expanded during 1976. This will allow added emphasis on Engineering Capability considered essential for product diversification.

Overall, sufficient orders have been received to allow 1977 revenues to surpass the sales of 1976, thereby promising a continued favourable outlook. Considerable additional expansion of productive capacity is continually in all of your Company's activities. Our fractional horsepower D.C. motor manufacturer is in the final stages of a major expansion. As a parallel measure, greater emphasis is being placed on our Corporate Engineering capability. Evaluation and refinement of the process to extract oil from Tar Sand is progressing with support from the Department of Energy, Mines and Resources. In addition, a task force, investigating Small Arms Technology in co-operation with the Department of National Defence, has been formed with a view of significant involvement in providing the needs of N.A.T.O. nations.

Corporate functions have had to be augmented to properly assimilate our increased business activities. In this regard, Mr. A. Czapka, formerly a senior General Manager at one of our Subsidiary Companies, was appointed Vice-President Administration and elected to the Board of Directors. Additions to, and promotions of, Corporate Staff were completed to strengthen automotive sales administration, and the management of the Aerospace/ Defence Group.

On the basis of your Company's past achievements, and confidence in the future, your Board of Directors will recommend a new higher yield stock for your ratification. These adjustments will more accurately reflect the worth of your Company.

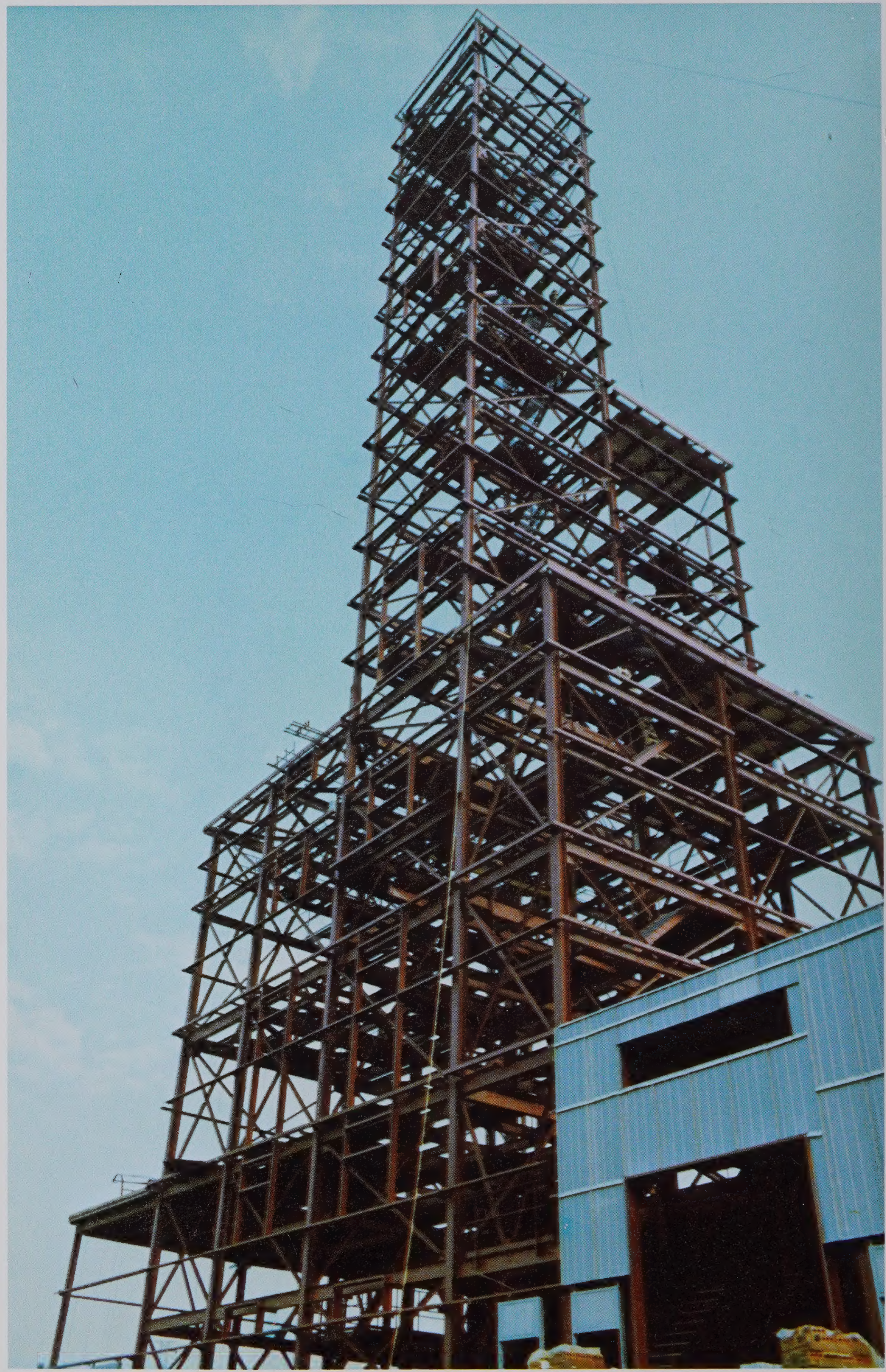
The management has, again during 1976, received the wise counsel of your Board of Directors, the loyalty and unrestrained efforts of the employees, the support of the Company's Bankers, the assistance of suppliers, the confidence of our customers, and the continued interest of you, our shareholders, for which we are most appreciative, and attribute, in no small measure, our success. With these continued contributions, we can meet the challenges of 1977 with confidence.

For the Board of Directors

Chairman of the Board, and
Chief Executive Officer.

President and
Chief Operating Officer.

December, 1976.



Structural Framework for Heavy Water Plant, Douglas Point, Ontario

Magna International Inc.
and its subsidiary companies

Consolidated Statement of Income and Retained Earnings

Year Ended July 31, 1976 (with comparative figures for 1975)

	1976	1975
Sales	**$55,009,975**	$39,414,908
Income before the following	**$ 8,109,553**	$ 4,928,384
Deduct:		
Depreciation	**1,416,428**	1,118,156
Interest on long-term debt (including amortization of debenture issue expense)	**619,304**	451,443
Other interest expense	**353,411**	507,648
Gain on retirement of sinking fund debentures	**(14,103)**	(29,210)
	2,375,040	2,048,037
Income before income taxes and minority interest	**5,734,513**	2,880,347
Income taxes (note 1)	**2,701,000**	1,472,500
Income before minority interest	**3,033,513**	1,407,847
Minority interest	**246,933**	68,617
Net income for the year	**2,786,580**	1,339,230
Retained earnings, beginning of year	**4,309,611**	3,094,946
	7,096,191	4,434,176
Deduct dividends:		
Preference shares	**10,072**	10,315
Common shares	**228,945**	114,250
	239,017	124,565
Retained earnings, end of year	**$ 6,857,174**	$ 4,309,611
Earnings per share:		
Basic	**$4.84**	$2.32
Fully diluted	**$4.33**	$2.09

(See attached notes)

Magna International Inc.
(Incorporated under the laws of Ontario)
and its subsidiary companies

Consolidated Balance Sheet

July 31, 1976 (with comparative figures at July 31, 1975)

ASSETS

	1976	1975
Current assets:		
Cash	$ 130,312	
Accounts receivable	8,283,400	$ 6,518,608
Inventories, valued at the lower of cost or net realizable value (note 1)	7,484,677	6,886,068
Prepaid expenses	318,681	305,595
Total current assets	16,217,070	13,710,271
Fixed assets, at cost:		
Land	78,152	69,091
Buildings	943,397	682,318
Machinery and equipment	14,181,080	11,122,459
	15,202,629	11,873,868
Less accumulated depreciation (note 1)	6,262,646	4,973,597
	8,939,983	6,900,271
Other assets:		
Mortgages receivable	48,819	50,302
Excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets (note 1)	2,367,955	2,367,955
Debenture issue expense, at amortized cost	31,008	39,117
	2,447,782	2,457,374
	$27,604,835	$23,067,916

On behalf of the Board:

Director

Director

(See attached notes)

LIABILITIES

	1976	1975
Current liabilities:		
Bank indebtedness (accounts receivable and inventories pledged as security)	$ 2,500,000	$ 4,454,361
Accounts payable and accrued charges	5,626,590	3,543,142
Income and other taxes payable	1,611,512	1,254,024
Excess of progress billings over costs incurred	282,532	215,069
Long-term debt due within one year	1,270,702	1,010,888
Total current liabilities	11,291,336	10,477,484
Deferred income taxes (note 1)	1,283,700	547,300
Deferred income (note 1)	157,915	180,582
Long-term debt (note 2)	4,469,451	4,397,913
Minority interest in subsidiary companies	602,809	355,876
Shareholders' equity (note 3):		
Capital stock		
Authorized:		
9,031 6½% cumulative sinking fund preference shares with a par value of $100 each, redeemable at $105		
1,000,000 common shares without par value		
Issued:		
1,531 preference shares (1975 — 1,568 shares)	153,100	156,800
580,999 common shares (1975 — 572,000 shares)	2,789,350	2,642,350
Retained earnings	6,857,174	4,309,611
	9,799,624	7,108,761
	$27,604,835	$23,067,916

(See attached notes)

Magna International Inc.
and its subsidiary companies

Consolidated Statement of Changes in Financial Position

Year ended July 31, 1976 (with comparative figures for 1975)

	1976	1975
Sources of working capital:		
From operations		
Net income for the year	**$2,786,580**	$1,339,230
Charges to net income which do not reduce capital, including depreciation, deferred income taxes, amortization and minority interest	**2,385,203**	1,417,469
	5,171,783	2,756,699
Notes payable	**1,500,000**	1,133,866
Mortgages payable		325,000
Common shares issued during the year	**147,000**	11,145
Capital assistance grants		57,315
Mortgage payments received	**1,483**	8,520
	6,820,266	4,292,545
Uses of working capital:		
Additions to fixed assets	**3,456,140**	2,016,682
Decrease in long-term debt non-current portion	**1,428,462**	1,080,243
Dividends	**239,017**	124,565
Redemption of preference shares	**3,700**	2,500
	5,127,319	3,223,990
Increase in working capital	**1,692,947**	1,068,555
Working capital, beginning of year	**3,232,787**	2,164,232
Working capital, end of year	**$4,925,734**	$3,232,787

(See attached notes)

Magna International Inc.
and its subsidiary companies

Notes to the Consolidated Financial Statements

July 31, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Magna International Inc. and its subsidiaries, some of which have a minority interest.

Monetary assets and liabilities of the Company's U.S. subsidiary, Dieomatic Inc., are translated into Canadian dollars at year-end rates. Non-monetary assets of Dieomatic Inc. are translated into Canadian dollars at rates prevailing at dates of acquisition.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined substantially on a first-in, first-out basis. Inventory values are as follows:

	1976	1975
Raw materials and supplies	**$2,975,016**	$2,998,090
Finished and in process	**4,509,661**	3,887,978
	$7,484,677	$6,886,068

Construction contracts

Profits on contracts in the Company's construction division are accounted for under the completed contract method. If it is recognized that a contract in progress will be completed at a loss, full provision for such loss is made in the year it is recognized.

Depreciation

Depreciation generally is provided on a straight-line basis over the estimated useful lives of assets at annual rates of 5% for buildings and 10% for equipment.

Excess of purchase price of interest in subsidiary companies over fair value of underlying net tangible assets

For acquisitions to date (all of which occurred prior to 1974) the value is being carried in the accounts at cost without amortization since, in the view of management there has been no impairment in such value. For future acquisitions in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the value will be amortized by charges to earnings over future periods.

Income taxes

In accordance with generally accepted accounting principles, the Company follows the tax allocation method of providing for income taxes. Where appropriate, maximum capital cost allowance is claimed for income tax purposes and a related provision is made for deferred income taxes. Income taxes include a provision for deferred taxes of $736,400 in 1976 ($247,200 in 1975).

Deferred income

The Company has sold certain of its land and buildings and leased back these properties from the purchasers. The excess of the proceeds from sale over net book value of the properties is being amortized over the term of the leases which, in each case, is ten years.

2. LONG-TERM DEBT

(a) An analysis of the Company's long-term debt is as follows:

	1976	1975
6½% convertible sinking fund debentures due December 1, 1987	**$1,256,000**	$1,456,000
Capital assistance grants — non-interest bearing due 1976 to 1980	**98,329**	130,204
Mortgages payable (secured by land and buildings of subsidiary companies) — 8% due 1976 to 1993	**463,072**	480,431
Lien notes payable — 9½% to 13% due 1976 to 1980 (including $360,000 notes of a subsidiary company)	**3,922,752**	3,342,166
	5,740,153	5,408,801
Less due within one year	**1,270,702**	1,010,888
	$4,469,451	$4,397,913

(b) The 6½% subordinated, sinking fund debentures, maturing $75,000 annually with the balance due in 1987, are convertible into common shares at the holders' option on or before December 1, 1977 at the rate of 61.3087 common shares for each $1,000 debenture.

(c) Required payments during the next five fiscal years are as follows: 1977 — $1,270,702; 1978 — $1,165,322; 1979 — $1,021,523; 1980 — $368,603; 1981 — $317,613.

3. SHAREHOLDERS' EQUITY

Preference shares

(a) During the year the Company redeemed 37 preference shares at a price of $3,060. The discount of $640 realized on redemption has been included in contributed surplus.

(b) Under the conditions attaching to the preference shares the Company is required to establish a sinking fund on or before January 1 of each year for redemption of preference shares of an amount equal to the greater of:

(i) 3% of the consolidated net profit for the preceding fiscal period after deducting dividends on preference shares, or

(ii) 2% of the par value of the issued and outstanding preference shares at the end of the preceding fiscal period.

Common shares

(a) At July 31, 1976 a total of 77,004 authorized and unissued common shares are reserved for the conversion of 6½% sinking fund debentures into common shares.

(b) During the year 8,999 common shares were issued on conversion of $147,000 of 6½% sinking fund debentures.

(c) Retained earnings:
Retained earnings includes $11,227 of contributed surplus arising from the redemption of preference shares.

4. LEASE COMMITMENTS

At July 31, 1976 the Company had lease commitments expiring between 1977 and 1985 providing for annual rentals of approximately $688,000 in each of the next five years.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year remuneration paid to directors and senior officers including certain operational managers of the Company totalled $486,100.

6. ANTI-INFLATION LEGISLATION

The Company and its Canadian subsidiaries are subject to the Anti-Inflation Legislation enacted by the government of Canada effective on October 14, 1975 to provide for the restraint on profit margins, prices, employee compensation and dividends.

The compliance reports which are being filed with the Anti-Inflation Board indicate that the Company and its Canadian subsidiaries did not earn excess revenue for the year ended July 31, 1976.

Under the amendments to the Regulations dated October 29, 1976, dividend payments for the compliance year commencing October 14, 1976 are restricted to 25% of consolidated earnings for the year ended July 31, 1976 which equals $1.06 per share (calculated on the basis that all the outstanding sinking fund debentures will be converted into common shares prior to the commencement of the second compliance period).

Auditor's Report

To the Shareholders of
Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. and its subsidiaries as at July 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1976, the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 9, 1976.

Galarkson, Gordon & Co.

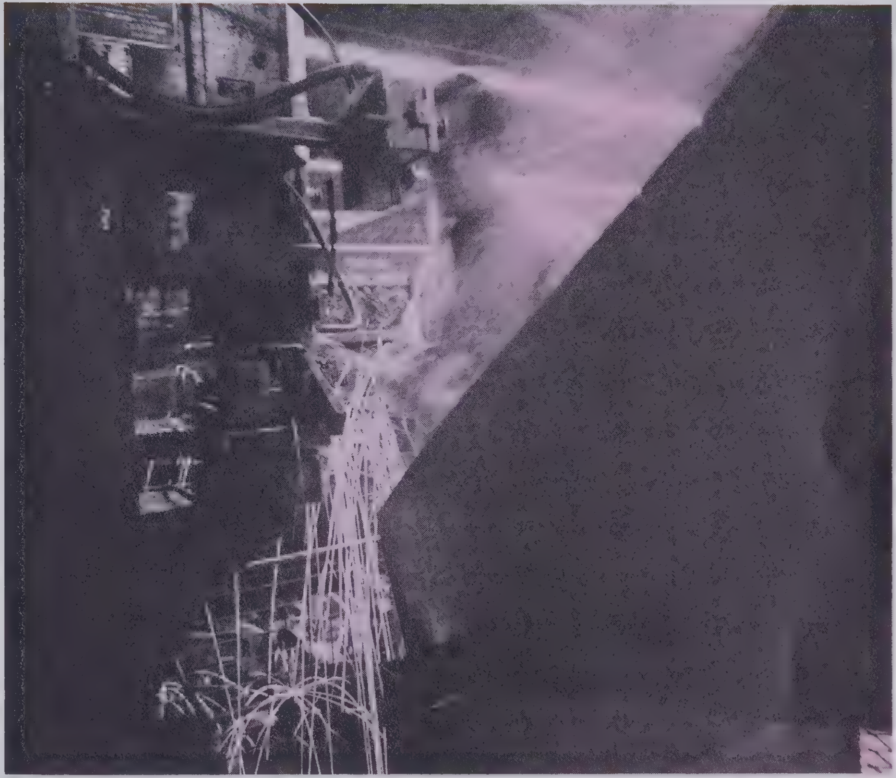
Chartered Accountants

Magna International Inc.
and its subsidiary companies

The Automotive Industry

The automobile will change just as all things change in response to their environment but the automotive industry will remain a vital part of the North American economy. Magna's share of this market is relatively modest and consequently sees future growth opportunities because of the inevitable transformation of the automobile.


1


2


3

1. Deep Drawing of Pulley Blanks
2. Automotive Welding of Pulley Components
3. Assembly of Automobile Sill Plates

1

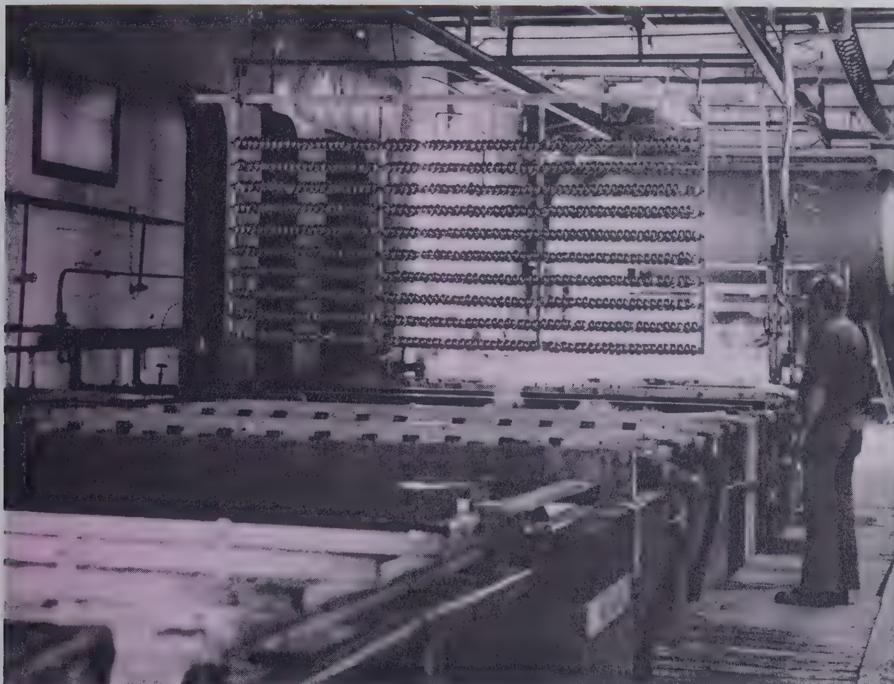
3

1. Inspection of Anodized Aluminum Trim

2. Hub and Pulley Automotive Assembly

3. A Partial Selection of Automotive Pulleys

2



1

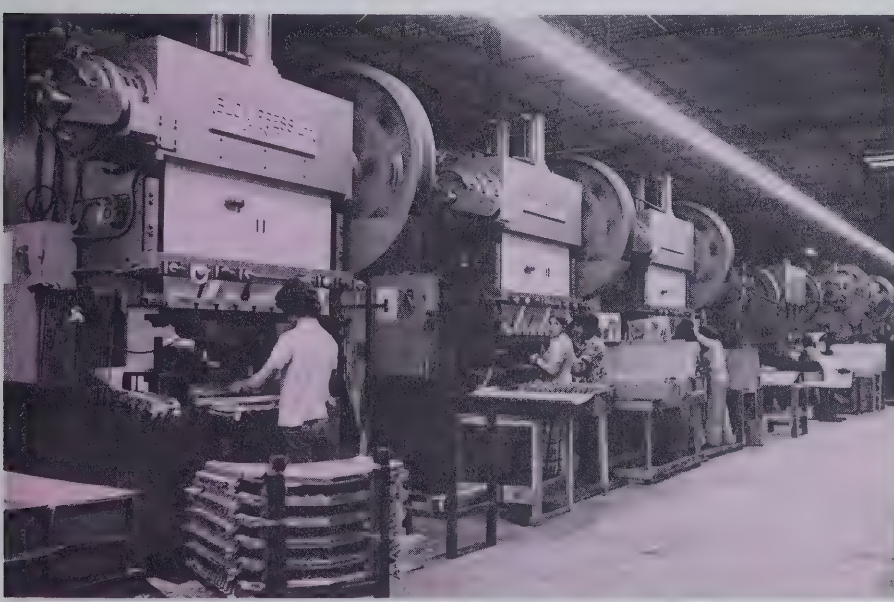
3

1. Programmed Anodizing Process

2. Stamping Line Producing Bright Metal Parts

3. A Partial Selection of Bumper Guards

4. Tool Maker Checking Stamping Die



2

4

Magna International Inc.

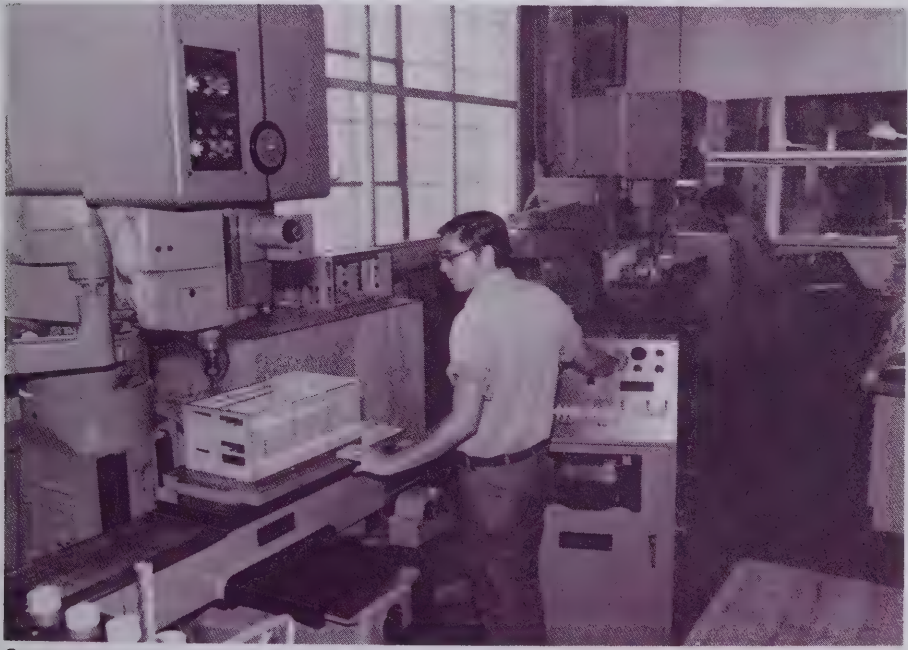
and its subsidiary companies

The Aerospace/Defence Industry

Government policy recognizes the self-interest in supporting Canadian manufacturing. Major foreign expenditures will be offset to the greatest extent possible, by encouraging exports of Canadian aerospace components. Magna has produced sophisticated products for this industry and is striving to increase its participation in this new commitment.

1

2



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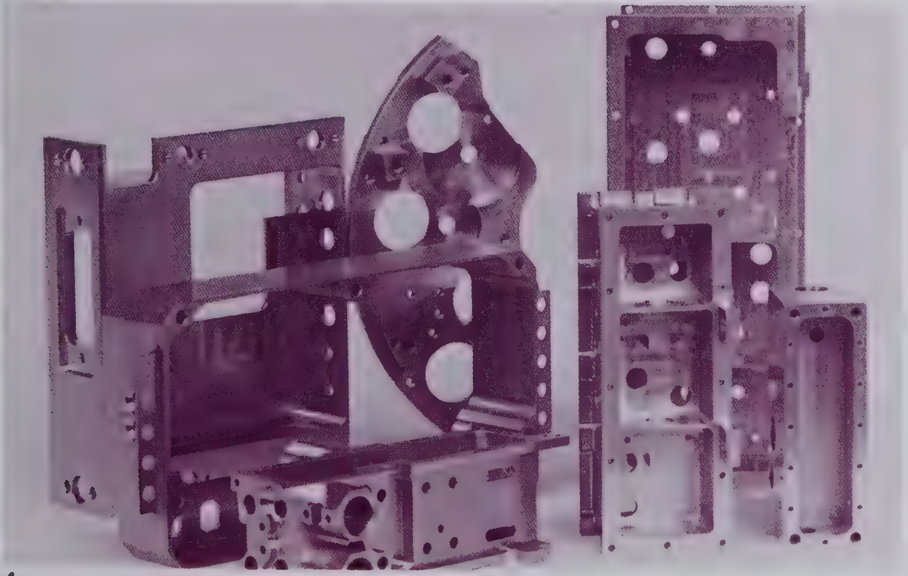


4

1. High Precision Machining of Beryllium Component

2. NC Piercing and Tapping

3. Moog NC Machining Centre with 24 Position Tool Changer

4. Precision Component for Avionics

5. Final Adjustment on Precision Component under Microscope

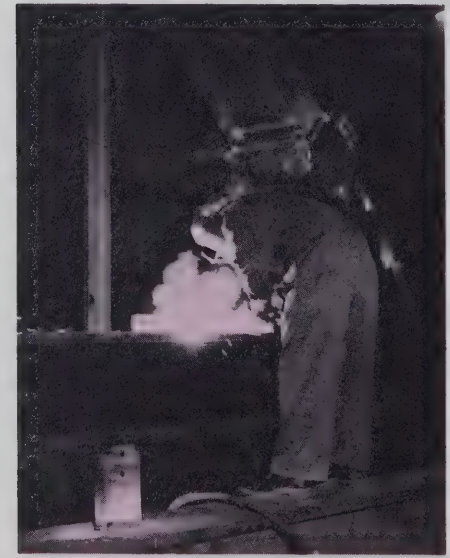
Magna International Inc.

and its subsidiary companies

Commercial Operations

Structural Steel
Magna regularly produces special structural steel components for resource and utility companies, as well as the industrial and commercial sector. All of these areas are characterized by their aggressive growth. This industry will undoubtedly contribute to the continued growth of Magna.

1


2


3

1. Pedestrian Bridge, Holiday Inn, London, Ontario
2. Heavy Structural Weldments
3. Precision Plate Cutting
4. Conveyor Gallery and Storage Structures for Resource Industry

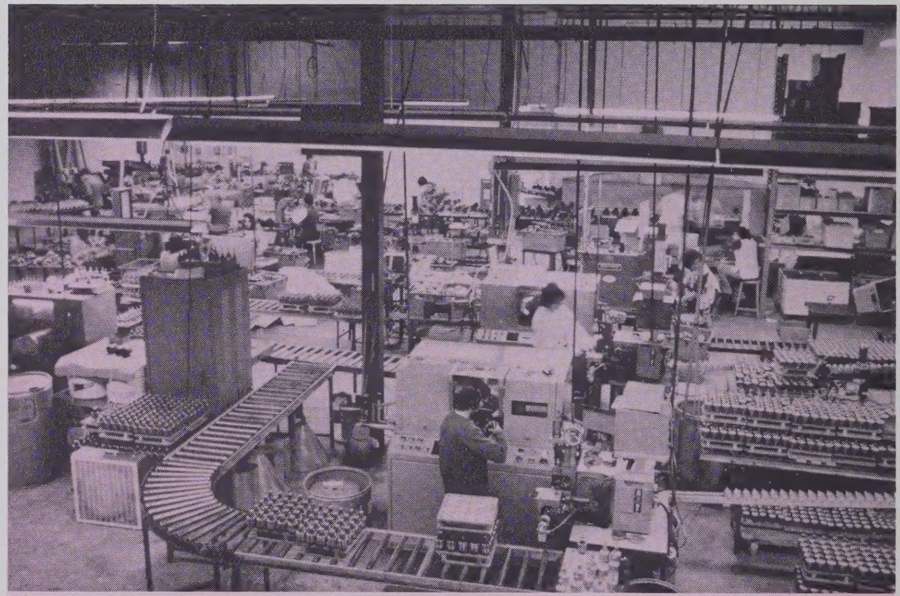
4

1. Partial View of Production Area

2. Flange Assembly Station

3. Final Test Station

Electric Motor Manufacturing
Continued expansion of manufacturing capability and capacity has rapidly moved Magna towards a leadership role in the manufacturing of fractioned horsepower electric motors. Fully integrated volume production methods have resulted in the capture of successively larger market shares. A strong emphasis on technological innovation supports this growth.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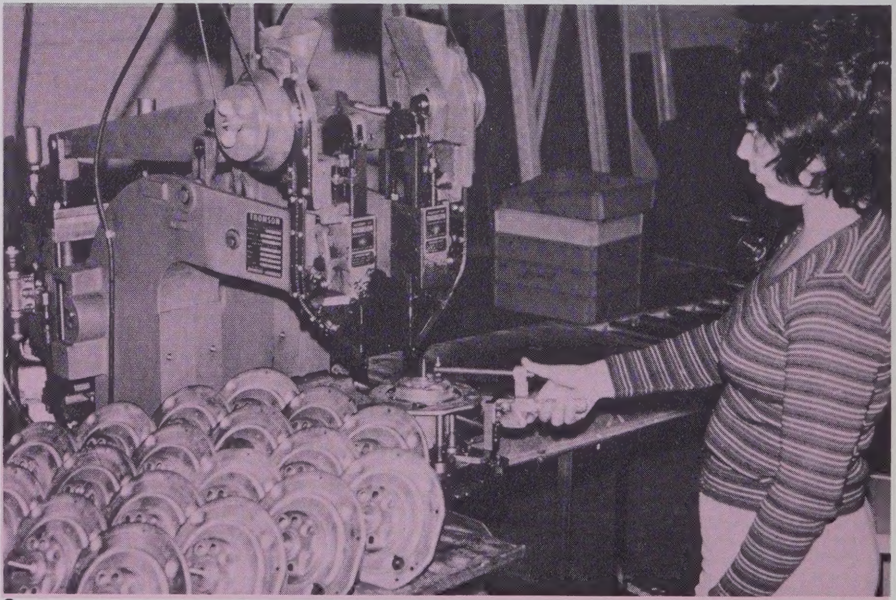
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